



Agenda Date: 4/26/06
Agenda Item: IVC

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF
PAETEC COMMUNICATIONS, INC. FOR
APPROVAL TO INCUR DEBT OBLIGATIONS

TELECOMMUNICATIONS

ORDER

) DOCKET NO. TF06010065

(SERVICE LIST ATTACHED)

BY THE BOARD:

PAETEC Communications, Inc. ("PAETEC" or "Petitioner"), a Delaware corporation and a public utility subject to the jurisdiction of the New Jersey Board of Public Utilities ("Board"), filed a petition with the Board on January 30, 2006, pursuant to N.J.S.A. 48:3-7 and N.J.S.A. 48:3-9, for approval to enter into a certain Fourth Amended and Restated Loan and Security Agreement ("Fourth Amendment"), with a syndicate of financial institutions largely comprised of PAETEC's existing lenders group. PAETEC also requests Board approval to enter into subsequent amendments to the Fourth Amendment, provided that such modified credit facilities do not increase the amount borrowed by the company.

Petitioner is authorized to provide local exchange and interexchange services throughout New Jersey, pursuant to Board Order of Approval dated February 6, 2003, in Docket No. TE02060319. Petitioner is a wholly owned subsidiary of PAETEC Corp., a privately held Delaware corporation, whose principal business is telecommunications. Petitioner serves 6,301 customers in New Jersey.

Petitioner requests Board approval of a modification to the terms governing repayment of its Third Amended and Restated Loan and Security Agreement ("Third Amendment"). The Board approved the terms of the Third Amendment on May 12, 2004, in Docket No. TF04030150. The Fourth Amendment will modify the terms governing the repayment of the Third Amendment for the purposes of refinancing all outstanding amounts owing under the Third Amendment, paying transaction costs of the facilities, and meeting working capital requirements and general corporate needs. The Fourth Amendment will consist of a \$25 million Senior Secured Reducing Credit Facility, and a \$100 million Senior Secured Term Loan Facility.

The annual interest rate on advances under the Fourth Amendment, at the option of the Petitioner, will be equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin, or an Alternate Base Rate plus an applicable margin. Petitioner's debt will be secured by certain of its assets and stock and will be unconditionally guaranteed by its parent, PAETEC Corp.

Petitioner, in accordance with N.J.A.C. 14:1-12 et seq., filed a request for confidential treatment of the term sheet and supplemental information submitted to the Board in conjunction with its review of this matter.

Petitioner also requested that the Board cancel its approval for the company to incur debt obligations of up to \$250 million as approved in Docket No. TF05060509. Petition states that it has decided to not enter into the transaction approved in that proceeding, and requests that it be relieved of its obligation to file semiannual reports.

The Division of the Ratepayer Advocate has reviewed this matter and, by letter dated March 3, 2006, recommends the Board approve this petition.

The Staff's review indicates that the financing transaction is in accordance with law and that the use of the proceeds associated therewith is appropriate. While there is no guarantee in this regard, especially given the competitive environment in which Petitioner operates, the Board is satisfied that the transactions will not have an adverse impact on Petitioner's operations in New Jersey. Moreover, the Board is also satisfied that subsequent amendments to the Fourth Amendment are appropriate, provided that any such amendments do not increase the total amount borrowed by PAETEC under the Fourth Amendment, and further provided that PAETEC files information regarding any substantive changes to its credit facility with its semiannual statements as set forth below.

After review, the Board FINDS that the proposed transaction is consistent with the applicable law and the public interest. The Board therefore approves the purposes thereof. The Board HEREBY AUTHORIZES Petitioner to participate in the financing arrangements described herein, and to engage in subsequent amendments consistent with the conditions herein. The Board further FINDS that its approval of the transaction in Docket No. TF05060509 should be cancelled, and that Petitioner is HEREBY RELIEVED of its obligations thereunder. The Board further finds that Petitioner's request for confidential treatment shall be governed by the disclosure requirements set forth at N.J.A.C. 14:1-12.1 et seq.


This Order is issued subject to the following provisions:

- 1 This Order shall not affect or in any way limit the exercise of the authority of the Board or the State of New Jersey in any future petition or in any proceeding regarding rates, costs of service, franchises, service, financing, accounting, capitalization, depreciation or any other matters affecting Petitioner.
2. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.

3. Petitioner shall semiannually file statements for the amounts, use of the amounts and use of the credit facilities pursuant to N.J.A.C. 14:1-5.9 (b).
4. Notwithstanding anything to the contrary in the documents executed pursuant to the financing transactions or other supporting documents, a default or assignment under such agreement shall not constitute automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq. where applicable.

DATED: 4/27/06

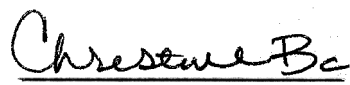
BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

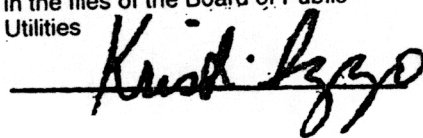

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



SERVICE LIST

In the Matter of the Petition of PAETEC Communications, Inc. for Approval to Incur Debt Obligations

Docket No. TF06010065

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